



JOHN NAIMO
AUDITOR-CONTROLLER

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DEPARTMENT OF AUDITOR-CONTROLLER**

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June 23, 2016

TO: Supervisor Hilda L. Solis, Chair
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: John Naimo 
Auditor-Controller

SUBJECT: **INSTITUTE FOR MAXIMUM HUMAN POTENTIAL – A DEPARTMENT
OF CHILDREN AND FAMILY SERVICES FAMILY PRESERVATION
PROGRAM PROVIDER – CONTRACT COMPLIANCE REVIEW**

We completed a contract compliance review of Institute for Maximum Human Potential (IMHP or Agency), which included a sample of transactions during Fiscal Years (FY) 2013-14 and 2014-15. The Department of Children and Family Services (DCFS) contracts with IMHP to provide Family Preservation (FP) Program services, such as in-home counseling sessions, case management, parenting classes, and housing and transportation assistance.

The purpose of our review was to determine whether IMHP appropriately accounted for and spent FP Program funds to provide the services outlined in their County contracts. We also evaluated the Agency's financial records, internal controls, and compliance with their County contracts and other applicable guidelines.

Our review covered two FP Program contracts with IMHP, for which DCFS paid the Agency approximately \$544,000 during FY 2013-14, and \$515,000 during FY 2014-15, on a fee-for-service basis. IMHP provides services to residents of the First, Second, and Fourth Supervisorial Districts.

Results of Review

IMHP had significant financial issues and was unable to pay their debts as they became due. For example, IMHP:

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"To Enrich Lives Through Effective and Caring Service"*

- Did not appropriately report all payroll expenditures to the Internal Revenue Service (IRS) and the State of California (State), or record the unpaid payroll taxes in their financial records. As a result, we could not determine the total payroll tax liability. For the quarter ended June 30, 2015, IMHP's payroll tax return reported a total payroll of \$26,984, but their internal records indicated gross payroll of \$95,257.

IMHP's attached response indicates that they are working with their payroll provider to amend their payroll reports, have contacted the IRS regarding a payment installment plan, and will submit revised payroll tax returns to the IRS and the State.

- Reported a net operating loss of \$166,463 on their audited financial statements for the year ended June 30, 2014. However, Agency management indicated that the audited financial statements were not accurate and subject to restatement. The net operating loss indicates IMHP will have a difficult time repaying delinquent payroll taxes and other liabilities. Audited financial statements for the year ended June 30, 2015 were not provided.

After our review, IMHP provided revised audited financial statements for the year ended June 30, 2014, which reported a net operating loss of \$95,804. In addition, IMHP's attached response indicates that they sold a building and consolidated staff and administration to one location to reduce overhead and improve their cash position.

- Had three loans totaling \$119,583, which the Agency used to cover day-to-day operating expenses. The loans included \$32,583 from the Chief Executive Officer (CEO) and \$87,000 from two short-term business lenders. This resulted in high interest costs to IMHP, as they were required to pay \$35,549 in interest to borrow the \$87,000 for less than ten months. IMHP did not charge the interest costs to the FP Program. Also, the Agency did not accurately track deposits or payments on the loan from the CEO. As a result, we could not determine the current loan balance. In addition, we noted that IMHP incurred overdraft fees because they did not have sufficient cash to make the required loan repayments.

After our review, IMHP paid off one short-term loan, and their remaining balance on the second short-term loan was \$17,517. The Agency's attached response indicates that they will pay off the second short-term loan by June 2016. However, current documentation was not provided for the loan from the CEO.

- Did not record all of their unpaid liabilities. The Agency maintained their financial records on a cash basis, only recording expenses when paid. As a result, we could not determine the amount of the Agency's outstanding accounts payable. IMHP did not record accrued assets and liabilities at the contract year-end as required for contractors that maintain their financial records on a cash basis.

After our review, IMHP provided revised audited financial statements prepared on an accrual basis for FY 2013-14. The Agency's attached response indicates that they have hired a new accounting firm and will ensure their financial records are up-to-date, accurate, and complete.

- Had difficulty paying their bills on time. We noted that 17 (52%) of the 33 expenditures sampled were paid late, and had late fees and interest charges.

IMHP's attached response indicates that they have made significant strides to reduce their liabilities, including selling property, and will submit a formal plan to DCFS detailing how they will manage their debts as they become due.

In addition to IMHP's financial weaknesses, IMHP did not have oversight by an independent Board of Directors (Board), charged the FP Program for unsupported and unallowable expenditures, and did not always comply with contract requirements. The Agency also did not have adequate internal controls over their cash, disbursements, payroll, and personnel processes. For example, IMHP:

- Did not have at least three Board members as required, and the Agency's two Board members were part of IMHP management.

IMHP's attached response indicates that they recruited additional Board members and meet independence requirements.

- Charged \$29,164 for unsupported and unallowable expenditures, such as employee-paid health insurance, workers compensation insurance, car allowances, and repairs.

IMHP's attached response indicates that they will reallocate all expenditures, provide DCFS with supporting documentation, and repay any overbilled amounts.

- Inappropriately allocated shared expenditures, including payroll expenditures. IMHP did not allocate expenditures to all benefiting programs, or did not have documentation to support the allocations as required.

IMHP's attached response indicates that they have implemented a new cost allocation methodology, and will reallocate all expenditures.

- Had unspent FP Program revenue totaling \$28,736 for FY 2013-14, which is required to be repaid to DCFS.

IMHP's attached response indicates that they will resubmit their Cost Report to DCFS after they reallocate their expenditures, and will repay DCFS for any overbilled amounts.

- Did not maintain adequate separation of duties over cash handling. The CEO signed her own reimbursement and payroll checks, and had access to the Agency's bank accounts and blank checks.

IMHP's attached response indicates that they have adopted policies and procedures that establish adequate separation of duties.

- Had two interns volunteering on the FP Program who were not included on the staff roster and not authorized by DCFS to work on the FP Program. DCFS indicated that they had reminded IMHP several times not to use unapproved interns.

IMHP's attached response indicates that they will ensure complete staff rosters are submitted to DCFS for approval and authorization.

Details of our review, along with recommendations for corrective action, are attached (Attachment I).

Based on the results of our review, it is imperative that IMHP correct the deficiencies noted in our report. If the Agency does not correct the deficiencies, including their significant financial issues, and cannot support their billings, DCFS should place IMHP in the County's Contractor Alert Reporting Database or terminate their contract with the Agency.

Review of Report

We discussed our report with IMHP and DCFS. IMHP's attached response (Attachment II) indicates agreement with our findings and recommendations, and that they will submit a formal plan to DCFS detailing how they will improve their financial condition. DCFS will work with IMHP to ensure that our recommendations are implemented.

We thank IMHP management and staff for their cooperation and assistance during our review. If you have any questions please call me, or your staff may contact Aggie Alonso at (213) 253-0304.

JN:AB:PH:AA:EB:ku

Attachments

- c: Sachi A. Hamai, Chief Executive Officer
Philip L. Browning, Director, Department of Children and Family Services
Marcelo Di Mauro, Chairman, Institute for Maximum Human Potential
Delores A. Brown, President/Chief Executive Officer, Institute for Maximum Human Potential
Public Information Office
Audit Committee

**INSTITUTE FOR MAXIMUM HUMAN POTENTIAL
FAMILY PRESERVATION PROGRAM PROVIDER
CONTRACT COMPLIANCE REVIEW
FISCAL YEARS 2013-14 AND 2014-15**

FINANCIAL VIABILITY

Objective

Determine whether Institute for Maximum Human Potential (IMHP or Agency) is financially viable to provide adequate services under their Department of Children and Family Services (DCFS) Family Preservation (FP) Program contracts.

Verification

We interviewed Agency management, reviewed their audited financial statements for Fiscal Years (FY) 2012-13 and 2013-14, and reviewed their financial records during July 2013 through June 2015.

Results

IMHP had significant financial issues and was unable to pay their debts as they became due as required by Section 8.45.1 of their County contracts. Our review identified delinquent payroll taxes, late fees, loans to cover operating expenses, and other issues with the Agency's financial records. Specifically, IMHP:

- Did not appropriately report all payroll expenditures to the Internal Revenue Service (IRS) and the State of California (State) as required. The Agency also did not record their unpaid payroll taxes in their financial records. As a result, we could not determine the total payroll tax liability. For the quarter ended June 30, 2015, the Agency's payroll tax return reported a total payroll of \$26,984, but their internal records indicated gross payroll of \$95,257. The Agency withheld taxes from employees on the full payroll amount, but only remitted taxes related to the \$26,984 to the IRS and the State.
- Reported a net operating loss of \$166,463 on their audited financial statements for the year ended June 30, 2014. However, Agency management indicated that the audited financial statements were not accurate and subject to restatement. The net operating loss indicates IMHP will have a difficult time repaying delinquent payroll taxes and other liabilities. After our review, IMHP provided revised audited financial statements for the year ended June 30, 2014, which reported a net operating loss of \$95,804.
- Had three loans totaling \$119,583, which the Agency used to cover day-to-day operating expenses. The loans included \$32,583 from the Chief Executive Officer (CEO) and \$87,000 from two short-term business lenders. This resulted in high

interest costs to IMHP, as they were required to pay \$35,549 in interest to borrow the \$87,000 for less than ten months. IMHP did not charge the interest costs to the FP Program. Also, the Agency did not accurately track deposits or payments on the loan from the CEO. As a result, we could not determine the current loan balance. After our review, IMHP paid off one short-term loan, and their remaining balance on the second short-term loan was \$17,517.

- Did not record all their unpaid liabilities. The Agency maintained their financial records on a cash basis, only recording expenses when paid. As a result, we could not determine the amount of the Agency's outstanding accounts payable, which resulted in the Agency's net assets being overstated. IMHP did not record accrued assets and liabilities at the contract year-end as required for contractors that maintain their financial records on a cash basis.
- Had difficulty paying their bills on time. We noted that 17 (52%) of the 33 expenditures sampled were paid late, and had late fees and interest charges.
- Incurred overdraft and returned-item fees totaling \$285 in June 2015. These fees were not charged to the FP Program, but indicate the Agency did not have sufficient cash to cover payments.
- Had maxed out two of their credit cards as of June 2015, with balances of approximately \$2,800 and \$2,300. After our review, IMHP provided their March 2016 credit card statement for one of their credit cards showing that they reduced the outstanding balance from \$2,300 to \$1,200.

Recommendations

Institute for Maximum Human Potential management:

- 1. Submit a formal plan to the Department of Children and Family Services detailing how they will improve their financial condition, including how the Agency will be able to pay their debts as they become due.**
- 2. Calculate the total payroll tax liability owed to the Internal Revenue Service and the State of California, and provide the Department of Children and Family Services with a plan to repay the delinquent taxes.**
- 3. Submit revised payroll tax returns to the Internal Revenue Service and the State of California.**
- 4. Ensure payroll taxes are reported and paid timely.**

5. **Ensure financial records are up-to-date, accurate, and complete, including year-end accruals.**

GOVERNANCE

Objective

Determine whether IMHP maintained a Board of Directors (Board) in compliance with the California Corporations Code, Section 5227 (Section 5227) and other applicable guidelines.

Verification

We interviewed Agency personnel and evaluated whether the Board is in compliance with applicable guidelines.

Results

IMHP did not maintain a Board in compliance with Section 5227. Specifically, IMHP's Board was not independent. The Agency's Board consisted of only two members, who were also part of IMHP management. Section 5227 states that not more than 49% of the persons serving on the Board of any corporation may be "interested persons." "Interested persons" include individuals currently being paid by the corporation for services rendered to it within the previous 12 months.

In addition, the Agency did not have at least three Board members as required by Section F.1.0 of the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook), and did not hold Board meetings as required by their by-laws. After our review, IMHP recruited two new Board members, and held Board meetings as required.

Recommendations

Institute for Maximum Human Potential management ensure:

6. **Board of Directors is independent and has at least three members as required by the California Corporations Code, Section 5227 and the Auditor-Controller Contract Accounting and Administration Handbook.**
7. **Board of Directors' meetings are held quarterly as required by the Agency's by-laws.**

PROGRAM SERVICES

Objective

Determine whether IMHP maintained documentation to support the services charged to DCFS and whether the clients received the billed services.

Verification

We reviewed the case files for ten (17%) of the 59 clients that the Agency claimed received FP Program services during May and June 2015. We also sampled five of the clients.

Results

Four (80%) of the five clients interviewed indicated they received the billed services and were satisfied with the services. The remaining client was not responsive to our calls. However, IMHP did not have support for some of the services billed to DCFS. Specifically, the Agency did not have supporting documentation for base rate and supplementary services provided to four (40%) of the ten clients reviewed totaling \$3,495. The unsupported base rate services identified were cases where IMHP billed DCFS for services on cases that should have been closed. IMHP's contract requires that the Agency contact DCFS and close the case if the contractor is unable to make contact with a client within five business days after the initial referral, or if there are two unexcused absences from In-Home Outreach Counseling (IHOC) sessions. IMHP also did not have documentation, such as case notes, to support two supplemental services billed.

Recommendations

Institute for Maximum Human Potential management:

- 8. Repay the Department of Children and Family Services \$3,495.**
- 9. Ensure billed services are adequately documented.**
- 10. Ensure cases are closed in accordance with contract requirements.**

CASH/REVENUE

Objective

Determine whether IMHP properly recorded revenue in their financial records, deposited cash receipts into their bank accounts timely, and if bank reconciliations were prepared timely, and reviewed and approved by Agency management.

Verification

We interviewed IMHP's management, and reviewed their financial records and June 2015 bank reconciliations for three bank accounts.

Results

IMHP properly recorded revenue in their financial records and deposited DCFS cash receipts timely. However, the Agency did not obtain two authorized signatures on checks as required, and did not maintain adequate separation of duties over cash handling. Specifically, we noted:

- The Agency's accountant prepared bank reconciliations, made deposits, and had full access to the financial records and blank checks.
- The Agency's CEO, an authorized check signer, signed her own reimbursement and payroll checks, reviewed and approved disbursements, was authorized to make deposits, and had access to the blank checks.
- The CEO's family member prepared electronic transfers and the CEO approved them. The A-C Handbook, Sections B.1.3 and B.1.4, requires checks to be recorded and bank reconciliations reconciled by a person with no cash handling responsibilities.

Recommendations

Institute for Maximum Human Potential management:

- 11. Ensure two authorized signatures are obtained on checks as required.**
- 12. Establish adequate internal controls over cash and disbursement processes.**

COST ALLOCATION PLAN/EXPENDITURES**Objective**

Determine whether IMHP developed their Cost Allocation Plan (Plan) using an appropriate cost allocation methodology, and if expenditures charged to the FP Program were allowable, properly documented, and appropriately allocated.

Verification

We interviewed Agency personnel, and reviewed their Plan and financial records for 33 non-payroll expenditures, totaling \$103,791, that the Agency charged to the FP Program during July 2013 through June 2015.

Results

IMHP did not develop their Plan in compliance with their County contracts using an appropriate cost allocation methodology. The Agency's Plan used an unsupported indirect cost allocation rate, and the Agency did not allocate expenditures according to their Plan. Specifically, IMHP inappropriately allocated shared expenditures, such as rent, consultant, and telephone expenditures. The Agency did not allocate expenditures to all the programs that benefited from the expenditures, or did not have documentation to support the allocations as required by Office of Management and Budget's Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, Section 200.405. After our review, IMHP revised their Plan to be in compliance with their County contracts.

In addition, IMHP charged the FP Program \$29,164 for unallowable and unsupported expenditures. Specifically, IMHP:

- Charged the FP Program for the employee-paid portion of health insurance expenditures. In addition, the employer-paid portion included late fees and was allocated to the FP Program based on predetermined estimates. The questioned costs totaled \$15,788.
- Did not provide documentation to support workers compensation insurance expenditures, resulting in \$4,882 in questioned costs.
- Charged \$4,050 for a subcontractor that was not approved by DCFS. The subcontractor was also an employee of IMHP who worked on the FP Program, which created a conflict of interest.
- Charged \$1,523 for car allowances for the Agency's CEO without Board approval or other supporting documentation. In addition, as noted in the Cash/Revenue section of our report, the CEO signed her own reimbursements.
- Charged \$2,131 for expenditures such as plumbing repairs, gasoline, and printing that were not supported by receipts, cancelled checks, or contract agreements.
- Charged \$512 for electrical repairs and maintenance for another program.
- Charged \$278 in late fees and interest due to the late payment of invoices, as noted in the Financial Viability section of our report.

Recommendations

Institute for Maximum Human Potential management:

- 13. Reallocate Fiscal Years 2013-14 and 2014-15 shared expenditures based on an allowable and equitable basis, reduce the Cost Reports**

for over allocated amounts, and repay the Department of Children and Family Services any overpaid amounts.

14. Reduce Family Preservation Program expenditures by \$15,788, or determine the amount of employee-paid health insurance charged to the Program, and repay the Department of Children and Family Services any overpaid amounts.
15. Reallocate the employer-paid health insurance using a supported allocation methodology and repay the Department of Children and Family Services any overpaid amounts, including any amounts charged for late fees.
16. Reduce the Family Preservation Program expenditures by \$13,376 (\$4,882 + \$4,050 + \$1,523 + \$2,131 + \$512 + \$278) and repay the Department of Children and Family Services any overpaid amounts, or provide documentation to support the expenditures.
17. Maintain a Cost Allocation Plan in compliance with their County contract requirements.
18. Ensure expenditures are allocated appropriately to all benefiting programs.
19. Ensure expenditures and allocations are supported with adequate documentation.
20. Ensure that all expenditures charged are allowable.

FIXED ASSETS AND EQUIPMENT

Objective

Determine whether IMHP's fixed assets and equipment purchased with FP Program funds were used for the Program and adequately safeguarded.

Verification

We interviewed IMHP personnel, and reviewed their fixed assets and equipment inventory list. We also performed a physical inventory of 11 items purchased with FP Program funds to verify the items exist and were being used for the Program.

Results

IMHP maintained a fixed asset listing for the FP Program, and provided documentation of an annual physical inventory done in June 2015. However, the Agency could not

locate eight (73%) of the 11 items sampled, such as computers, and their fixed asset listing did not include the locations of the items, dates of purchase, acquisition costs, and sources of funding. After our review, IMHP provided an updated fixed asset listing that included the location of fixed assets. However, IMHP should include the dates of purchase, acquisition costs, and sources of funding on their fixed asset listing.

Recommendations

Institute for Maximum Human Potential management:

- 21. Adequately safeguard and track physical fixed assets purchased with Family Preservation Program funds.**
- 22. Ensure their fixed asset listing is complete and accurate.**

PAYROLL AND PERSONNEL

Objective

Determine whether IMHP maintained personnel files as required and charged payroll expenditures to the FP Program that were allowable, properly documented, and appropriately allocated.

Verification

We interviewed employees, and reviewed personnel files for eight employees. We also compared the payroll expenditures for the eight employees, totaling \$24,734 for May 2015, to the Agency's payroll records and time reports.

Results

IMHP allocated shared payroll expenditures for two (25%) of the eight employees reviewed based on predetermined estimates rather than actual hours worked. In addition, IMHP did not:

- Prepare payroll registers for each pay period. The Agency outsources payroll processing, but due to financial viability issues, staff prepared internal payroll reports. The Agency paid their employees, but as noted in the Financial Viability section of our report, they did not pay payroll taxes to the IRS and the State, even though payroll, Social Security, and Medicare taxes were withheld from the employees. In addition, the internal payroll reports did not include the CEO's salary payments and no taxes were withheld from her pay.
- Maintain current pay rate documentation in the personnel files for seven (88%) of the eight employees reviewed. After our review, IMHP provided approved pay rates for

two employees and indicated two other employees were no longer employed by the Agency.

- Have current driver's licenses and/or proof of auto insurance for two (67%) of the three IHOC personnel files reviewed. IHOC counselors may be required to transport clients as part of their job duties.

Also, IMHP had internal control deficiencies over payroll and personnel transactions. For example:

- IMHP classified the Agency's Chief Operating Officer and Accountant as subcontractors although they met the IRS definition of an employee.
- IMHP did not maintain adequate separation of duties over payroll and personnel transactions. The CEO and Accountant processed payroll, distributed payroll checks, and maintained personnel records.
- The CEO directly supervised one of her family members, which created a conflict of interest.
- Eight (67%) of the 12 timecards reviewed contained calculation errors. This did not affect employee pay because the employees are salaried, but this high rate of error decreases the accuracy of timekeeping records and how many hours the employees are spending on the FP Program.
- IMHP had two interns volunteering on the FP Program who were not included on the staff roster and not authorized by DCFS to work on the FP Program. Section 4.3.5 of their County contracts requires the contractor to provide a staff roster to DCFS at the beginning of each contract term and within 15 days of any staff changes.

Recommendations

Refer to Recommendations 1 through 5.

Institute for Maximum Human Potential management:

- 23. Reallocate the Fiscal Year 2014-15 unsupported payroll expenses for the two shared employees based on actual conditions, and repay the Department of Children and Family Services any overpaid amounts.**
- 24. Ensure formal payroll registers are prepared for each pay period.**
- 25. Maintain personnel files as required.**
- 26. Ensure compliance with Internal Revenue Service guidelines and properly classify employees and independent contractors.**

27. Establish adequate internal controls over payroll and personnel processes.
28. Ensure timecards are prepared accurately and reflect actual hours worked by program.
29. Ensure all staff providing Family Preservation Program services are included on the staff roster submitted to the Department of Children and Family Services and authorized by the Department.

COST REPORT

Objective

Determine whether IMHP's FY 2013-14 Cost Report reconciled to their financial records and whether IMHP had any unspent revenue for FY 2013-14.

Verification

We compared IMHP's FY 2013-14 Cost Report to their financial records.

Results

IMHP's FY 2013-14 Cost Report did not reconcile to their financial records. Specifically, the Agency had \$28,736 in unspent revenue that needs to be repaid to DCFS.

Recommendations

Institute for Maximum Human Potential management:

30. Repay the Department of Children and Family Services \$28,736 for unspent revenue from Fiscal Year 2013-14.
31. Revise their accounting records based on our recommendations above, provide the Department of Children and Family Services with a revised Fiscal Year 2013-14 Cost Report, and work with the Department of Children and Family Services to return any unspent revenue.



INSTITUTE FOR MAXIMUM
HUMAN POTENTIAL

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John Naimo, Auditor-Controller
County of Los Angeles
Department of Auditor-Comptroller
Countywide Contract Monitoring Division
350 S. Figueroa Street, 8th Floor
Los Angeles, CA 90071

Re: INSTITUTE FOR MAXIMUM HUMAN POTENTIAL—A DEPARTMENT OF CHILDREN AND FAMILY
SERVICES- FAMILY PRESERVATION SERVICE PROVIDER –CONTRACT COMPLIANCE REVIEW

Dear Mr. Naimo

Institute for Maximum Human Potential has received and reviewed the Auditor-Controller Report on the Department of Children and Family Services Family Preservation Program. Attached is our response to the recommendations contained in the report.

Should you require additional information, please feel free to contact me at (323) 567-9883 or via email at dbrown.imhpla@gmail.com.

Sincerely,



Delores A. Brown
President/CEO

INSTITUTE FOR MAXIMUM HUMAN POTENTIAL

FAMILY PRESERVATION PROGRAM

CONTRACT COMPLIANCE REPORT

FINANCIAL VIABILITY

1. Submit a formal plan to the Department of Children and Family services detailing how they will improve their financial condition, including how the Agency will be able to pay their debts as they become due.

Response: IMHP has made significant strides to reduce its liabilities based upon reduction of 40% in revenue in May of 2014 from the Department of Children and Family Services allocated to our Family Preservation contract under Title IV-E Waiver. IMHP continues in business one year and one half later. IMHP has made significant strides and is reflected in agency current cash position with the cash infusion from the sale of building and the following additional steps to reduce liabilities.

Returned sub-contracts to Contractor who was in arrears. IMHP will revisit this relationship for Fiscal Year 2016-17. This change decreased IMHP payroll liabilities by 40% effective September 2015.

IMHP closed second office as of September 2015 and consolidated staff and administration into one location thereby reducing leasing and overhead cost.

IMHP has paid off 100 % of short term loans as of June 2016 and 100 % retirement of all outstanding mortgage debt.

IMHP payroll and taxes to Internal Revenue and State of California is current for the last two quarters.

IMPACT: IMHP cash balance has increased by 20%. IMHP is currently meeting its liabilities and is working to obtain other funding sources to enhance its working capital.

IMHP will submit a formal plan to Department of Children and Family Services detailing how moving forward the organization will manage their debts as they become due based upon our increase in financial viability.

2. Calculate the total payroll tax liability owed to the Internal Revenue Service and the State of California and provide the Department of children and family Services with a plan to repay the delinquent taxes.

Response: IMHP has contacted the Internal Revenue Service regarding a payment installment plan. IMHP was directed by IRS to form 433-B to complete after Third party payroll vendor finalizes payroll tax amount and forward appropriate documentation to the IRS and State of California

3. Submit revised payroll tax returns to the Internal revenue Service and the State of California

Response: IMHP third party payroll service Advantage Payroll is in the process of amending and revising payroll. Once completed Advantage Payroll will file the amended payroll taxes with the Internal Revenue Service and State of California.

4. Ensure payroll taxes are reported and paid timely

Response: IMHP will ensure taxes are reported and paid in a timely manner by continuing to utilize a third party vendor Advantage Payroll. IMHP management and Advantage will ensure that all your tax payments are made accurately and on time. Advantage Payroll will file all of our quarterly and annual payroll tax returns and reports including issuance of W-2 reports for all employees.

5. Maintain Adequate financial records, ensure records are up to date, accurate and complete, including year-end accruals

Response: IMHP has hired a new CPA firm to review and comply with OMB Circular 123. IMHP management team will review and strengthen its policy and procedures to ensure proper oversight and monitoring of IMHP financial records to ensure records are up to date, accurate and complete including year-end accruals based upon the revised Cost Allocation Plan.

GOVERNANCE

6. Ensure the Board of Directors is independent and has a least three members as required by the California Corporations Code and the Auditor-Controllers Contract Accounting and Administration Handbook.

Response: IMHP welcomed two new Board Members on September 30, 2015, and a new Board of Directors to replace our Chairman of the Board due to death, being in full compliance with California State Laws and in accordance with the Auditor-Controller Contract Accounting and Administration Handbook and best practices for non-profit management. A copy of the Board Meeting Agenda, Minutes, Amended By-laws, Policy's adopted and other pertinent information were provided to the Auditor. From September 2015 to April 16, 2016 the board was comprised of six (6) individuals with less than 49% of interested parties in accordance with state law.

7. Ensure Board of Directors meeting are held monthly as required by the Agency's By-laws
Response: IMHP has modified its bylaws to reflect quarterly meetings as adopted by a Board resolution dated January 8, 2016

PROGRAM SERVICES

8. Repay the Department of Children and Family Services \$3,495 for the unsupported billed service

Response: IMHP intends to reallocate all expenditures charged to Family Preservation Service Program during the audit period, provide the Department of Children and Families Services with supporting documentation, and repay any overbilled amounts.

IMHP will ensure that all expenditures charged to the Family Preservation Program are allowable, properly documented, and accurately billed

9. Ensure billed services are adequately documented.

Response: IMHP Management will continue to provide oversight for the accuracy of invoices submitted to the Department of Children and Family Services. IMHP will ensure that all billable services are documented, including but not limited to the service provider's signature, receipt of services, and number of hours services are provided. IMHP ensures these records are maintained and used at time of billing to provide accurate billing information.

10. Ensure cases are closed in accordance with contract requirements

Response: IMHP ensures cases are closed in accordance with contract requirements.

CASH/REVENUE

11. Ensure two signatures are obtained on checks as required

Response: IMHP ensures two signatures are obtained on all check disbursements. IMHP has always had two signatures for disbursement prior to the illness and untimely demise of the second signatory. IMHP had added an additional signatory to comply with contract requirements.

12. Establish adequate internal controls over cash and disbursement process.

Response: IMHP will ensure adequate separation of duties exists over the cash disbursements function. IMHP has implemented Board adopted policies and procedures that establish adequate separation of duties for cash receipts, bank reconciliations and disbursements.

COST ALLOCATION PLAN/EXPENDITURES

13. Reallocate Fiscal Years 2013-14 and 2014-15 shared expenditures based on an allowable and equity basis, reduce the Cost Reports for over allocated amounts, and repay the Department of Children and Family services any overpaid amounts.

Response: IMHP new accounting firm has prepared and Implemented a Cost Allocation Methodology for Fiscal Year 2013 through June 2014 and 2014 – 2015 which meets the contractual requirements and related guidelines. IMHP has incorporated a new Cost allocation plan prepared by our accounting firm. The plan will be presented to the Department of Children and Family Services. The agency will monitor all allocation methodologies and ensure that those methodologies meet requirements.

15. Reduce Family Preservation expenditures by \$15,788 or determine the amount of employee-paid health insurance charged to the Program and repay the Department of children and family services any overpaid amounts.

Response: IMHP will reallocate the employer –paid health insurance using a supported allocation methodology and repay the Department of Children and Family Services any overpaid amounts, including any amounts charged for late fees.

16. Reduce the Family Preservation expenditure by 13,376 (\$4,882 + \$4,050 + \$1,523 + \$2,131 + \$512 + 278) and repay the Department of Children and Family Services any overpaid amounts, or provide documentation to support the expenditures.

Response: IMHP will reallocate all expenditures charged to the Family Preservation Program during the audit period, provide the Department of Children and Family Services with supporting documentation, and repay any overbilled amounts.

17. Maintain a Cost allocation Plan in compliance with County contract requirements.

Response: Going forward IMHP has incorporated and prepared and implemented a Cost Allocation Methodology for Fiscal Year 2013 through June 2014 and 2014 – 2015 which meets the contractual requirements and related guidelines. The plan will be presented to the Department of Children and Family Services.

18. Ensure expenditures are allocated appropriately to all benefiting programs.

Response: IMHP will ensure that all expenditures charged to the Family Preservation Program are allowable, properly documented and accurately billed

19. Ensure expenditures and allocations are supported with adequate documentation.

Response: IMHP will ensure that all expenditures charged to the Family Preservation Program are allowable, properly documented and accurately billed.

20. Ensure that all expenditures charged are allowable.

Response: IMHP will ensure that all expenditures are allocated appropriately to benefiting Program by monitoring all allocation methodologies and ensuring that those methodologies are meeting requirements, are allowable, properly documented and accurately billed.

FIXED ASSETS AND EQUIPMENT

21. Adequately safeguard and track physical assets purchased with Family Preservation funds.

Response: IMHP has reviewed the fixed inventory and updated to include a complete and accurate listing of fixed assets. IMHP has submitted a list of destruction and obsolete equipment to the Department of Children and Family Services. IMHP will maintain an inventory of remaining inventory listing and ensure they comply with County contract requirements. IMHP will also ensure that a semi-annual inventory of fixed assets and equipment is conducted.

22. Ensure the fixed assets listing is complete and accurate

Response: IMHP ensures the fixed asset listing is complete and accurate. IMHP completes a physical inspection of all assets. Equipment acquisitions that are physically tagged with a barcode. IMHP updates its inventory asset list with demographic information about the asset including manufacturer, model, serial number, location, and custodian. IMHP employees are personally responsible for protecting all property entrusted to them and to protect all IMHP assets in general. This includes the proper care, maintenance, control and reasonable safeguards to prevent loss, damage or theft of equipment and other assets.

PAYROLL AND PERSONNEL

23. Reallocate the Fiscal Year 2014-15 unsupported payroll expenses for the two shared employees based on actual conditions and repay the Department of Children and Family Services any overpaid amounts.

Response: IMHP intends to reallocate all expenditures charged to the Family Preservation Program during the audit period, provide the Department of Children and Family Services with supporting documentation and repay any overbilled amounts.

24. Ensure formal payroll registers are prepared for each pay period.

Response: IMHP outsources its payroll to a third party vendor Advantage Payroll Service thereby ensuring accuracy. This allows for smooth error free Input Worksheets for documentation.

25. Ensure current pay rate information, driver's license and proof of auto insurance is maintained in employee personnel files.

Response: IMHP ensures current pay rate information, driver's license and proof of auto insurance is maintained in employee files.

26. Ensure compliance with Internal Revenue Service guidelines and properly classify employees and independent contractors.

Response: In complying with the Internal Revenue Service guidelines, all IMHP workers have been properly classified as employees. IMHP will provide the accurate documentation needed as required by the Family Preservation contract, if any contractors are in our employ, in which currently they are not.

27. Establish adequate internal controls over payroll and personnel process.

Response: IMHP ensures adequate internal control over payroll and personnel process by separation of duties. IMHP has one staff person who prepares the payroll, another who authorizes it, and another that create payments, thereby reducing the risk of fraud.

28. Ensure timecards are prepared accurately and reflect actual hours worked on program.

Response: IMHP Program Manager ensures and approves the propriety of submitted hours, employee time cards/records as certification that the hours/work were actually performed as reported. The Program Manager signs or initial and date the timecards to document their review and approval. IMHP time cards reflect a daily work schedule indicating hours worked on each contract.

29. Ensure staff providing Family Preservation services are included on all staff roster submitted to the Department of Children and Family Services and authorized by the Department.

Response: IMHP ensures staff providing Family Preservation services are included on all staff roster submitted to the Department of Children and Family Services as staff changes occur for approval and authorization from the Department of Children and Family Services.

COST REPORT

30. Repay the Department of Children and Family Services \$28,736 for unspent revenue from Fiscal Year 2013-14

Response: IMHP will reallocate all expenditures charged to the Family Preservation Program during the audit period, provide the Department of Children and Family Services with supporting documentation, and repay any overbilled amounts

31. Revise Fiscal Year 2013-14 Cost Report and submit it to the Department of Children and Family Services.

Response: IMHP will resubmit cost proposal to the Department of Children and Family Services after completion of reallocation of all expenditures charged to the Family Preservation Program during the audit period, provide the Department of Children and Family Services with supporting documentation, and repay any contract overage amounts if applicable.